

MULTIPHASE TRAINING AND EMPLOYMENT SUPPORT PROGRAM
PHASE I
(ME-0233)

EXECUTIVE SUMMARY

Borrower and guarantor:	Nacional Financiera, S.N.C. (NAFIN), the Government of the United Mexican States.			
Executing agency:	Secretaría de Trabajo y Previsión Social (STPS) [Department of Labor and Social Insurance]			
		Phase I (three years)	Phase II (three years)	Phase III (three years)
Amount and source:	IDB (OC):	US\$300 million	US\$300 million	US\$300 million
	Local:	US\$300 million	US\$300 million	US\$300 million
	Total:	US\$600 million	US\$600 million	US\$600 million
Financial terms and conditions:	Amortization period:	25 years		
	Grace period:	3 years		
	Disbursement period:	3 years		
	Interest rate:	variable		
	Inspection and supervision:	1%		
	Credit fee:	0.75%		
	Currency:	U.S. dollar, Single Currency Facility		
Objectives:	The general objective of the multiphase training and employment support program is to promote worker development, employability, mobility, and productivity in order to make the workforce more competitive, and to develop capacity for planning, analysis and programming of sector labor market policies.			
Justification for a multiphase program	A nine-year program costing an estimated US\$1.8 billion is proposed, to be carried out in three three-year phases for which the Bank would fund US\$300 million every three years and the Mexican government would contribute a similar amount. This type of program, already tested satisfactorily in the two previous labor market operations financed by the Bank (loans 983/OC-ME and 1256/OC-ME), is the most appropriate mechanism for labor market programs. It would permit the Bank to make an incremental investment at the same time as it closely and continuously monitors the program on the central and state levels, in order to optimize the expected outcomes and respond efficiently, flexibly and practically to the demands of a dynamic labor			

market. Unlike other social projects intended to solve a specific problem, this program is intended to establish an evolving investment system to respond to continuous changes in a globalized market. Given that goal, the multiphase approach has significant advantages since it: (i) permits actions to continue without interruptions that could affect private sector participation; (ii) gives the private sector confidence in the continuity of public sector investments, thereby ensuring that entrepreneurs will make complementary investments; and (iii) provides the flexibility to adjust the program continuously to new economic demands.

Description:

The specific objectives, reflected sequentially in the components described below, are: (i) to step up worker-related activities for the underemployed and unemployed; (ii) raise active worker productivity as a means of increasing employee competitiveness; and (iii) to improve the evaluation of labor market and institutional development policies.

Component 1. Employment support program (US\$239 million in phase I). The objective is to reduce contracting costs for employers and the cost of finding work for job seekers and increase the placement rate for unemployed workers who have received training.

The efficiency of placement services will be enhanced and their benefits will be extended to more workers. The annual goals for assistance will rise from 630,000 to about 1.2 million unemployed and underemployed workers, which will permit the program to assist up to 7.5 million job seekers over nine years. Activities are included to improve and expand the coverage of the Servicio Nacional de Empleo (SNE) [National Employment Service] and to provide better linkage between the unemployed and job offers and/or training.

Component 2. Training support program (US\$56 million in phase I). The objective is to boost the productivity and competitiveness of microenterprises, small and medium-sized companies, and their workers. The technical and financial resources contributed by the program to train workers in companies will be upped by 100 percent. The additional investment will assist about 100,000 companies a year, as compared with 50,000 at present, and train about 350,000 of their workers. New distance training activities will be introduced (virtual training) among other activities, which will indirectly influence about 200,000 more companies. The multiplier effects will be enhanced through social marketing programs and studies and demonstrations of best training practices. Greater

responsibility for operating the program will be delegated to the states, expanding geographic coverage and targeting companies will broaden its scope at the local level.

Component 3. Policy evaluation and institutional development (US\$6 million in phase I). The objective is to support the STPS in boosting its strategic planning and operating capacity and the sector's capacity to design, analyze and apply labor market policies. Financing will be provided for the following activities: (i) technical advisory assistance for improving evaluation methodologies, monitoring, and operating information of employment and training programs; (ii) labor market studies and surveys; and (iii) standardization of labor market information and publications. Support will be provided for the institutional development of the STPS, with financing for specialized training for staff, strengthening in safety and health, labor arbitration and jurisdiction. Funding will also be provided for information systems in order to strengthen the STSP's accounting and administrative systems.

**The Bank's
country and
sector strategy:**

The government's strategy is to: (i) expand training and employment programs for the underemployed and unemployed; (ii) provide incentives for companies to invest more in on-the-job training; (iii) reduce the cost of workforce mobility and facilitate its adaptation to the labor market; (iv) expand programs to promote the competitiveness of more companies and their workers; and (v) promote cooperation between employers and employees on occupational health and productivity.

The Bank's strategy is to facilitate the economic and social transition and to boost the competitiveness of Mexican workers. It will support the STPS in its efforts to provide more training for workers and the unemployed and facilitate workforce mobility and policy analysis. The proposed program includes focused activities and incentives to ensure that the project benefits more women and high-risk groups.

The proposed program is consistent with the **2001-2006 National Development Plan** and the new labor culture, which focuses on: (i) expanding and improving programs for the unemployed and underemployed; (ii) creating a climate conducive to competitiveness; (iii) promoting job creation and self-employment to include the most underprivileged groups in the workforce, such as the disabled, older adults and indigenous peoples; and (iv) promote transparency in interactions between employers, employees and the government.

Environmental and social review:

Environmental aspects. Most of the program activities focus on training, studies, surveys and institutional strengthening and are not expected to have direct negative environmental impacts. Furthermore, training in productive processes will take the environmental aspects of specific technologies into account, seeking to reduce any adverse impacts and promote positive impacts through technologies that can be applied by workers. Activities related to occupational safety, health and hygiene will be continuously monitored to verify compliance with Bank guidelines and Compulsory Mexican Standards.

Social aspects. Support for training and employment programs for the unemployed, including vulnerable groups (women, the disabled, older adults, abused, illiterate and indigenous peoples, youths at risk and rural craftspeople in poor areas) has a positive impact on society in general, since it supports their incorporation into or return to productive activities. The program will monitor its impact on beneficiaries as a whole and on each of the vulnerable groups mentioned above. A baseline will be established with the STPS for each group and appropriate evaluation methods and specific indicators will be developed to measure the results, in order to adjust program activities in function of the lessons learned.

Benefits:

General. The actions included in the proposed program will help boost the effectiveness of the government's labor policy. This will be achieved through effective integration of public and private actions in the design and delivery of job placement and training services. Another major benefit relates to training for workers employed by microenterprises and small and medium-sized companies and the improvement in their general productivity.

Impact on women. The program's benefits will extend to women as workers and entrepreneurs (particularly in microenterprises). The more prominent position that women will acquire through social communications will attract enterprises belonging to women and inform companies that mainly employ women about the benefits of the program. The studies, research and surveys included in the new operation will lead to better analysis and evaluation of gender problems in areas that are crucial for women's participation in the workforce. Indicators and specific targets will be included on the number or percentage of women who benefit from the program's components.

Impact on vulnerable groups. Another significant benefit will be the active inclusion in STPS programs of vulnerable or high-risk groups. Under component 1, in particular, the STPS will launch special activities (described in Chapter II) to attend to the specific needs of

women, the disabled, older, abused, indigenous and illiterate people, youths at risk and rural craftspeople in poor areas. The STPS has indicated that it will establish transition centers for groups with difficulties in finding work and will seek partnerships with civil society organizations to provide comprehensive services involving job guidance, training, and specialized support for these vulnerable groups.

Risks:

Decentralized execution of an operation that delivers services through two programs: (i) an employment support program (PAE), through the National Employment Service (SNE) with 139 state offices and (ii) a training support program (PAC) with 72 local training promotion organizations (TPOs) and 32 officers in charge presents challenges for the STPS in terms of supervision and monitoring. To mitigate this risk, independent audits will be scheduled in the states at least once every two years. The statements for which reservations have been expressed will be automatically audited the following year and disbursements will be contingent on taking corrective measures within the periods established by the borrower, executing agency and the Bank.

As to component 2 (training support program), the STPS' decision to transfer to state officials authorization for training plans and payments, tasks that are currently centralized, could pose a risk to the running of the operation. To mitigate this risk, it has been agreed that the STPS will transfer responsibilities to the states in stages, initially only to those with funds available to contract personnel and with the basic instruments to administer the program on the state level. Technical advice and training will be provided for state and TPO officials in their new functions and responsibilities. A master register of training suppliers will be established that can be consulted by all interested parties—the central and state governments, TPOs and entrepreneurs requiring services. An internal accounting and financial control system will be implemented for use by the central executing agency and in the state offices in charge of authorizations and payments. As described in Chapter III on program execution, the state governments will absorb the operating costs (payroll for administrative staff and promoters, communications, etc.). To mitigate the risk, it has been agreed with the STPS to transfer responsibility to the states in stages, initially only those that have the necessary resources to hire personnel and the basic tools for administering the program at the state level.

Special contractual clauses:

Program eligibility will be contingent on approval by the Bank of the following conditions precedent to the first disbursement:

1. Evidence that the borrower has entered into with the United Mexican States one or more agreements that should contain at

least (i) the terms and conditions on which the borrower may transfer to the guarantor the loan proceeds; and (ii) an obligation on the part of the executing agency to carry out the activities planned for the program (paragraph 3.1).

2. Evidence that STPS has (a) reached agreement with the Bank on an Action Plan establishing, *inter alia* (i) the steps that must be taken to ensure the implementation of proper internal control system based on the recommendations contained in the special audit report commissioned by the STPS; and (ii) the schedule agreed on with the Bank for implementing the activities described in the Action Plan as needed immediately to initiate the program activities (paragraph 3.17); and (b) completed the actions described in the Action Plan as needed immediately to initiate the program activities.

Special conditions precedent to disbursements for components 1 and 2

1. The borrower or the executing agency shall demonstrate, to the Bank's satisfaction, that the Operating Regulations and the Procedures Manual for component 1 have entered into effect as agreed with the Bank (paragraph 3.4).
2. The borrower or the executing agency shall demonstrate, to the Bank's satisfaction, that the Operating Regulations and the Procedures Manual for component 2 which is to include the model of the agreement between the STPC and the states, have entered into force as agreed with the Bank (paragraphs 3.5 and 3.6).

Other special conditions:

1. If as a result of the semiannual operating audits and annual financial audits or annual meetings, it is found that adjustments need to be made to the program, the executing agency will take such steps as are necessary to make and introduce such adjustments in a timely manner.

Poverty-targeting and social sector classification:

This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). This operation does not qualify as a poverty-targeted investment (PTI) (see paragraph 4.12).

Exceptions to Bank policy:

See "Procurement of goods and consulting services".

Procurement:

Procurement of goods and services will be governed by the Bank's policies and procedures.

International competitive bidding will be required for procurement valued at, or above, the equivalent of US\$350,000 in the case of goods and of US\$200,000 in the case of consulting services. Local law will apply to bidding on contracts valued at amounts below these thresholds insofar as the provisions of such law do not conflict with the principles of the Bank's procurement procedures.

As an exception to the requirement for international competitive bidding, it is recommended that direct contracting be employed in the case of the following institutions and companies: (i) Instituto de Estadística, Geográfica, e Información (INEGI) for demographic surveys and surveys of the labor situation to a maximum of US\$6 million; (ii) AVANTEL, a telecommunications company, for continued dial 800 telephone service under the "Chambatel" program to a maximum of US\$3 million.

In addition, it is recommended that direct contracting be used for the following publicity services: television, to a maximum of US\$2.8 million; radio, to a maximum of US\$1.2 million; and the press and printed material, to a maximum of US\$1.5 million. The use of these firms is justified on the basis of their technical and institutional strengths (policy GS-403 relating to selection without the need for competition) to ensure optimum execution and development of the services proposed for each of the program components.